Switzerland

Switzerland: Pension system in 2012

The Swiss retirement pension system has three parts. The public scheme is earnings-related but has a progressive formula. There is also a system of mandatory occupational persons and an income-tested supplementary benefit. The occupational pension can be supplemented on a voluntary basis.

Key indicators

		Switzerland	OECD
Average worker earnings (AW)	CHF	86 900	39 100
	USD	94 900	42 700
Public pension spending	% of GDP	6.3	7.8
Life expectancy	At birth	82.5	79.9
	At age 65	20.7	19.1
Population aged over 65	% of population of active age	28.1	25.5

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Qualifying conditions

Pensionable age under the public scheme and mandatory occupational pensions is currently 65 for men and 64 for women. A full pension requires contributions for 44 years for men and 43 for women.

Benefit calculation

Earnings-related

The public pension is based on average lifetime earnings. Average lifetime earnings depend on the number of years during which contributions have been made and the person's average income between age 20 and retirement age. Benefits are subject to both upper and lower limits. Between these two thresholds, the "two-branch" benefit calculation formula favours average incomes. The benefit calculation tends to redistribute from high towards low incomes. With full contributions pension benefits will be between CHF 13 920 and CHF 27 840. These are equivalent 16% and 32% of average earnings. The maximum benefit is reached when average lifetime earnings are CHF 83 520 equivalent to 96% of economy-wide average earnings. The benefit paid to married couples may not exceed 150% of the maximum benefit.

Benefits are adjusted every two years. Pensions in payment are indexed 50% to prices and 50% to nominal earnings.

Mandatory occupational

A mandatory occupational insurance regime was introduced in 1985. It is built around "defined credits" to an individual's pension account and applies to people earning an annual income of at least CHF 20 880 per annum. These vary by age:

Age	25-34	35-44	45-54	55-64/65
Old-age credits (as % of co-ordinated salary)	7	10	15	18

The value of accumulated credits at retirement depends on the required interest applied to earlier years' contributions. The interest rate is currently 1.5%. The old-age credits are calculated each year as a percentage of the co-ordinated salary. If the interest rate is broadly equivalent to the growth rate of earnings, then a full career in the system will give a man at age 65 accumulated credits of 500% of earnings. However, higher (or lower) outcomes are possible if the interest rate exceeds (is less than) growth in earnings. The modelling assumes that the interest rate applied to the credits will be equivalent to earnings over the long term.

The employer must pay at least half of these old-age credits, the employee the remainder.

The individual pension account is converted into an annual retirement benefit upon retirement, using a conversion factor rate of 6.90% for men, 6.85% for women. In addition, the retiree is entitled to receive at least a quarter of his/her retirement assets as a lump sum.

The mandatory system corresponds to a statutory minimum guaranteed by law. Registered provident institutions (pension funds) are free to provide benefits exceeding the law. Such pension benefits are referred to as "over-obligatory" benefits. Most retired employees enjoy "over-obligatory" benefits of this kind.

Targeted

Means-tested supplementary benefits are paid when earnings-related benefits and other sources of income are insufficient to cover basic living costs. The amount of annual benefit paid corresponds to the difference between recognised expenditure and calculated income (benefits, earned income, return on assets, etc.). Recognised expenses for single people break down as follows:

Factors in calculating supplementary benefits (PC)	Annual amount (single person living at home)
Coverage of essential needs	CHF 19 050
Maximum gross rent	CHF 13 200
Maximum amount for reimbursement of sickness and invalidity costs	CHF 25 000

The supplementary benefit is indexed in the same way as the public old-age pensions, i.e. to a mixed index of 50% prices and 50% wages. There are discretionary cantonal additions for low-income pensioners; these are disregarded in the model.

Voluntary

Voluntary pensions saving are encouraged through tax exemptions of contributions. Contributions can be saved in a bank account or paid into a dedicated insurance policy, from which no withdrawals are permitted. In 2012 the maximum that could be invested amounted to CHF 6 682 for employees and CHF 33 408 for the self-employed. A maximum of five years of extra contributions can be made after the ordinary retirement age. Voluntary private pension cannot be withdrawn until at most five years before the pensionable age. The benefits are subject to income tax.

Variant careers

Early retirement

Early retirement in the public scheme is possible two years before the standard retirement age, i.e. from age 63 in the case of men, age 62 in the case of women. In case of early retirement, the full value is reduced by 6.8% for each year of early claiming. This is equivalent to an actuarial adjustment of 4.5% for the additional year in which benefits are taken and of 2.3%, for the missing qualifying year, under OECD modelling assumptions.

For women born between 1939 and 1947, the benefits are reduced by only 3.4% per year, to mitigate for the effect of the increase in the retirement age for women (to 63 in 2001 and to 64 in 2005).

Early retirement is permitted in occupational schemes and can be claim from age 58. Pension funds themselves define the terms of early retirement. As a general rule, the conversion rate applied to the employee's pension assets to obtain the annual pension benefit is reduced by between 0.15 and 0.20 of a percentage point for each year of early retirement. The 0.2 point reduction is equivalent to an actuarial adjustment, as conventionally measured, of 2.95% per year of early retirement (increasing with the extent of early retirement). Including also the loss of contributions and credits as a result of early retirement, the theoretical benefit is 7.1% (one year) – 6.35% (five years) lower per year of early retirement.

It is possible, to some extent, to withdraw pension benefits early without giving up gainful employment.

Late retirement

Both public and occupational pensions can be deferred after normal pension age. The public pension can be deferred for up to five years. The public pension is increased according to the following schedule:

Deferral	1 year	2 years	3 years	4 years	5 years
Adjustment (%)	5.2	10.8	17.1	24.0	31.5

Contributions are not levied on people working after age 65 for men and age 64 for women if earnings are below CHF 16 800 per year. For earnings above that level, contributions are levied when people defer the pension or claim the pension while continuing their work but no additional pension entitlement can be earned.

Occupational pension benefit can be deferred until age 70. The pension funds themselves define the terms. As a general rule, the conversion rate is raised by 0.2 of a percentage points for each year the retirement is deferred according a recommendation of the Federal Social Insurance Office (pension funds decide freely on the percentage points).

In principle, it is possible to combine receipt of the occupational pension with continuing to work. In practice, these are mainly cases of people with incomplete careers or people who have retired early rather than late. Therefore, the modelling assumes that people defer their occupational pension if they continue to work after the normal pension age. People do not continue to contribute after 65 under the public pension scheme.

Childcare

Years of childcare (for children under age 16) are credited in the public scheme as if earnings had amounted to three times the minimum pension of the year in which the caring parent retires. For 2012, this was CHF 41 760, corresponding to 48% of economy-wide average earnings. If the caring parent is married during the caring period, the credits are split equally between the spouses or registered partnership.

Credits for childcare are not required in occupational schemes.

Caring for close relatives

Care of helpless relatives (older or young) rare credited a bonus for care-taking. This credit is not possible to claim in combination with the credit for bringing up children. The bonus corresponds to three times the minimum annual old-age pension benefit. Bonuses acquired during the years of a civil marriage (or registered partnership) are shared half and half by the partners.

Credits for caring of close relative are not required in occupational pension schemes.

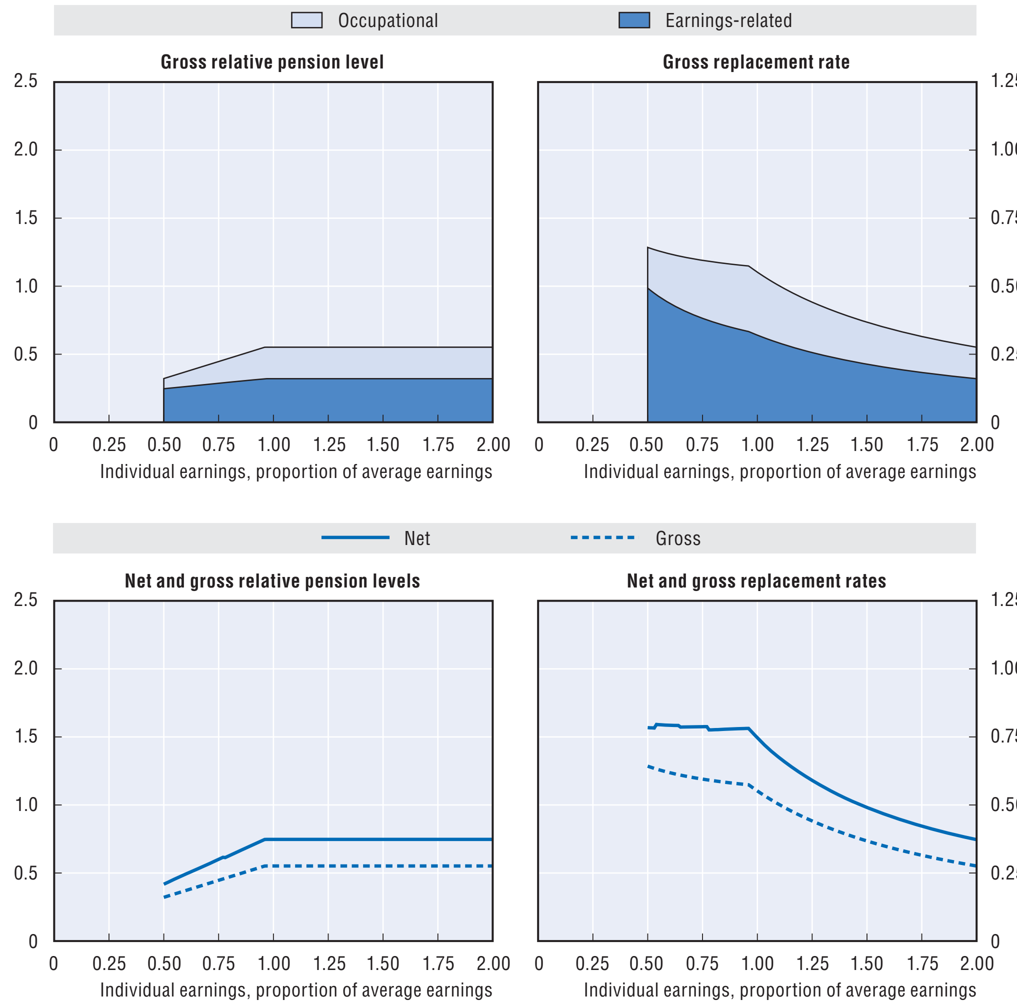
Unemployment

Unemployment benefits are subject to social security contributions and so count towards the public pension just as if they were earnings. Unemployment insurance pays 80% of previous earnings. Persons with no child maintenance, who receive a full daily allowance of more than CHF 140 or who are not disabled receive 70% of the insured salary. The duration of unemployment insurance varies between 90 and 640 days. Once unemployment insurance is exhausted and a former worker is on social assistance, they do not pay contribution. If income is very low, then municipal authorities often pay the minimum contribution.

Unemployed persons who receive daily unemployment-insurance benefits remain insured on a mandatory basis against the risks of death and invalidity in occupational schemes. There is no obligation to pay contributions towards old-age pensions. The unemployed may if he or she wishes to do so pay their old-age pension contributions (both the employee's and the employer's shares).

Any daily allowances received in the event of sickness/accident are similarly subject to contributions.

Pension modelling results: Switzerland



Men *Women (where different)*	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	49.6	32.1	44.6	55.2	55.2	55.2
(% average gross earnings)	*48.9*	*31.9*	*44.1*	*54.3*	*54.3*	*54.3*
Net relative pension level	66.6	41.8	60.1	74.7	74.7	74.7
(% net average earnings)	*65.5*	*41.4*	*59.2*	*73.5*	*73.5*	*73.5*
Gross replacement rate	58.4	64.3	59.5	55.2	36.8	27.6
(% individual gross earnings)	*57.6*	*63.7*	*58.7*	*54.3*	*36.2*	*27.2*
Net replacement rate	77.8	78.4	78.8	74.7	49.1	37.3
(% individual net earnings)	*76.6*	*77.7*	*77.6*	*73.5*	*48.3*	*36.7*
Gross pension wealth	11.1	12.4	11.4	10.5	7.0	5.2
(multiple of individual gross earnings)	*12.9*	*14.6*	*13.2*	*12.1*	*8.1*	*6.1*
Net pension wealth	9.9	10.7	10.2	9.4	6.3	4.7
(multiple of individual gross earnings)	*11.5*	*12.5*	*11.8*	*10.9*	*7.3*	*5.4*

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